



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

November 22, 2016

### **H.R. 4341** **Defending America's Small Contractors Act of 2016**

*As reported by the House Committee on Small Business July 25, 2016*

#### **SUMMARY**

H.R. 4341 would make several changes to the requirements that federal agencies follow to incorporate small businesses into their contracts for services and procurements. It also would establish a new pilot program to provide performance ratings to subcontractors and specify other responsibilities of the Small Business Administration (SBA). CBO estimates that implementing the bill would cost \$53 million over the 2017-2021 period, assuming appropriation of the necessary amounts.

Because provisions in H.R. 4341 would affect agencies whose spending does not depend on annual appropriations, enacting the bill also would affect direct spending; therefore, pay-as-you-go procedures apply. Because most of those agencies can adjust the amounts they collect as operating costs change, CBO estimates that the net effect of any such spending by those agencies would be negligible. Enacting H.R. 4341 would not affect revenues.

CBO estimates that enacting H.R. 4341 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2027.

H.R. 4341 contains no intergovernmental or private sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary effect of H.R. 4341 is shown in the following table. The costs of this legislation fall primarily within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars					2017-
	2017	2018	2019	2020	2021	2021
<b>INCREASES IN SPENDING SUBJECT TO APPROPRIATION</b>						
Small Business Administration						
Estimated Authorization Level	4	5	5	5	5	24
Estimated Outlays	3	5	5	5	5	23
Other Federal Agencies						
Estimated Authorization Level	6	6	6	7	7	32
Estimated Outlays	5	5	6	7	7	30
Total Changes						
Estimated Authorization Level	10	11	11	12	12	56
Estimated Outlays	8	10	11	12	12	53

## **BASIS OF ESTIMATE**

For this estimate, CBO assumes that the bill will be enacted by the end of calendar year 2016, that the necessary amounts will be appropriated each year, and that spending will follow historical patterns.

### **Small Business Administration**

Under current law, the SBA assists small businesses in obtaining federal prime contracts, subcontracts, and procurement awards. H.R. 4341 would enumerate the duties of the staff that work on those activities. The bill would require that the SBA's commercial market representatives (CMRs), which assist small businesses seeking prime contracts and subcontracts, to also assist prime contractors in finding small businesses to perform subcontracts. Based on an analysis of information from the SBA on the current capacity of its CMR staff and the expected volume of new work under H.R. 4341, CBO estimates that implementing this provision would require 30 additional CMR staff and cost \$16 million over the 2017-2021 period.

H.R. 4341 also would direct the SBA to create a three-year pilot program to allow small business subcontractors to request a rating of their past performance under their subcontracts. Based on an analysis of information from the SBA, CBO estimates that implementing the pilot program would cost \$2 million over the 2017-2021 period.

Additionally, H.R. 4341 would authorize SBA employees that review federal contracts to delay the acceptance of a subcontracting plan if the plan fails to maximize the participation

of small businesses and would require the SBA to issue regulations that provide guidance on how to comply with that requirement. Based on an analysis of information from the SBA about the current review process for subcontracting plans, CBO estimates that implementing H.R. 4341 would require up to 18 additional SBA employees to undertake additional reviews of subcontracting plans from other federal agencies. After federal agencies have worked with the new review process for a few years, CBO expects the cost of implementing those reviews would decline significantly as agencies better incorporate small businesses into their subcontracting plans. CBO estimates that the additional work would cost \$5 million over the 2017-2021 period.

Finally, the bill would allow an interested party to challenge the inclusion, or exclusion, of a small business concern from being listed in a database of veteran-owned businesses. The SBA would oversee the petition process and be reimbursed by the Department of Veterans Affairs for the costs to undertake such hearings. H.R. 4341 also would require the SBA to provide an annual report on changes to federal acquisition regulations and any accompanying education materials it develops to assist with compliance. On the basis of information from the SBA, CBO estimates that implementing these provisions would cost less than \$500,000 each year over the 2017-2021 period.

### **Other Federal Agencies**

Provisions in H.R. 4341 would require federal agencies to address weaknesses in subcontracting plans that could be subject to proposed delays and to work with prime contractors to obtain past performance ratings for subcontractors when requested under the new pilot program authorized in the bill. Based on an analysis of information from the SBA and the General Services Administration, CBO estimates that it would cost each of the 26 major federal agencies, on average, about \$85,000 a year—or a total of \$10 million over the 2017-2021 period—to conduct more detailed reviews of subcontracting plans and to obtain past performance ratings for subcontracts. CBO estimates that spending to review subcontracting plans would occur mainly in the first two years as contracting officers adapt to the new SBA standards while spending on the pilot program would occur in the last three years.

The bill also would expand the duties of the Office of Small and Disadvantaged Business Utilization in each of the 26 major federal agencies to include a review of agency purchases within a certain cost range for compliance with certain federal procurement laws and to provide additional guidance to contractors on federal contracting regulations. Based on an analysis of information from the SBA, CBO estimates that each of the 26 major federal agencies would need one additional employee to conduct these reviews and issue such guidance at an estimated cost of \$20 million over the 2017-2021 period.

Finally, H.R. 4341 would require the Government Accountability Office (GAO) to conduct several studies and reviews related to the SBA's procurement and business

development programs and surety bonds. Based on the costs of similar activities, CBO estimates that any increased costs to GAO to conduct assessments and reports under H.R. 4341 would be insignificant.

**PAY-AS-YOU-GO CONSIDERATIONS:** None.

## **INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS**

CBO estimates that enacting H.R. 4341 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2027.

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

H.R. 4341 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets or state, local, or tribal governments.

## **PREVIOUS CBO ESTIMATE**

On October 24, 2016, CBO transmitted a cost estimate for S. 2138, the Small Business Subcontracting Transparency Act of 2015, as reported by the Senate Committee on Small Business and Entrepreneurship on November 3, 2015. S. 2138 is substantively similar to section 301 of H.R. 4341, which would allow the SBA to delay the acceptance of subcontracting plans under certain circumstances. Our estimates of the budgetary effects related to that authority is the same under both bills.

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